

## Message Text

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ACTION EUR-12

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COME-00 EB-04 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01

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INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY SOFIA

AMEMBASSY THE HAGUE

AMEMBASSY VIENNA

USMISSION OECD PARIS

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E.O. 11652: NA

TAGS: ETRD, GATT, EEC, CZ, FI

SUBJECT: FINNISH/COMMISSION DISCUSSION OF FINNISH TRADE AGREEMENTS  
WITH EAST EUROPEAN COUNTRIES

REF: A) BRUSSELS 8051 B) HELSINKI 2096 C) VIENNA 8711

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1. BEGIN SUMMARY: DURING RECENT CONVERSATIONS WITH FINNISH OFFICIALS, THE COMMISSION PROPOSED THAT THE FINNISH TRADE AGREEMENTS WITH EAST EUROPEAN COUNTRIES BE EXAMINED ACCORDING TO USUAL GATT PROCEDURES BUT WITH A LONG DELAY BEFORE A GATT FINDING. THE COMMISSION BELIEVES THAT THE FINNS WOULD FIND THIS APPROACH ACCEPTABLE. END SUMMARY.

2. WHILE IN BRUSSELS OCTOBER 15-16, FINNISH OFFICIAL YRJO-KOSKINEN DISCUSSED WITH THE COMMISSION'S DEPUTY DIRECTOR FOR EXTERNAL AFFAIRS DE KERGORLAY THE CONTENT OF THE RECENT FINNISH TRADE AGREEMENTS WITH THE SMALLER EAST EUROPEAN COUNTRIES, AS WELL AS THEIR TREATMENT IN THE GATT. AFTER YRJO-KOSKINEN'S EXPOSE ON THE CONTENT OF THE AGREEMENTS, DE KERGORLAY TOLD HIM THAT THE COMMUNITY HAD TWO OBJECTIVES IN APPROACHING A GATT EXAMINATION OF THOSE AGREEMENTS. THE FIRST IS TO AVOID CAUSING DIFFICULTY FOR THE FINNS AND THE SECOND IS TO AVOID GATT ACCEPTANCE OF THE AGREEMENTS IN A ROUTINE FASHION SO THAT THEY ESTABLISH PRECEDENTS. BOTH THE COMMISSION AND THE FINNS OPPOSE RESORT TO A GATT WAIVER OF TO TREATMENT OF THE AGREEMENTS AS SPECIAL CASES ON POLITICAL GROUNDS.

3. BECAUSE OF THE SMALL VOLUME OF TRADE BETWEEN FINLAND AND THE EAST EUROPEAN COUNTRIES, EXCLUDING THE SOVIET UNION- 3 PERCENT OF TOTAL FINNISH TRADE THE COMMISSION DOES NOT LOOK UPON THESE AGREEMENTS AS SERIOUS ECONOMIC PROBLEMS. BUT THEY DO CONSIDER THERE WOULD BE A SERIOUS PROBLEM IF GATT ACCEPTANCE OF THE FINNISH AGREEMENTS ALLOWED THE EAST EUROPEAN COUNTRIES TO CLAIM THAT THERE WAS A GOOD GATT PRECEDENT FOR "FREE TRADE AREAS" BETWEEN CENTRALLY-PLANNED, STATE-TRADING SYSTEMS AND MARKET ECONOMIES.

4. DE KERGORLAY SAID THAT THE COMMISSION HAD GIVEN YRJO-KOSKINEN ITS PRELIMINARY THINKING ON HOW TO GET ROUND THESE PROBLEMS. BY MAKING FULL USE OF GATT PROCEDURES BUT STRETCHING THEM OUT, IT WOULD BE POSSIBLE TO SHOW THAT THE GATT WAS NOT BEING BYPASSED AND DEMONSTRATE THAT THE AGREEMENTS ARE CLEARLY SPECIAL TRADE CASES. DE KERGORLAY FORESAW A TIMETABLE AS FOLLOWS: THE FINNS WOULD RATIFY THE AGREEMENTS IN NOVEMBER, REPORT THEM LIMITED OFFICIAL USE

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TO THE GATT IN DECEMBER. AFTER THE USUAL EXCHANGE OF QUESTIONS AND ANSWERS, THE GATT COULD SET UP A WORKING PARTY TO MEET IN SIX OR EIGHT MONTHS, SAY BY NEXT SUMMER. THE WORKING PARTY WOULD THEN MAKE A PRELIMINARY REPORT AT THE END OF NEXT YEAR, IN WHICH THE COMMUNITY WOULD CLAIM THAT BECAUSE OF THE SMALL VOLUME OF TRADE, DATA WAS INSUFFICIENT TO MAKE A DEFINITIVE FINDING ON THE COMPATIBILITY OF THE AGREEMENT WITH THE GATT AND WOULD PROPOSE THAT THE WORKING PARTY WAIT FOR THE

ACCUMULATION OF THREE YEARS' TRADE DATA. THIS WOULD TAKE THE WORKING PARTY TILL THE END OF 1978 AND AT THAT TIME, THE COMMUNITY MIGHT AGAIN PROPOSE FURTHER "EXAMINATION OF DATA".

5. ACCORDING TO DE KERGORLAY, ALTHOUGH, YRJO-KOSINEN DID NOT SPECIFICALLY ENDORSE THIS APPROACH, HE DID FIND IT COMPATIBLE WITH FINLAND'S AIMS, WHICH ARE (A) TO AVOID TROUBLE FROM ITS GATT PARTNERS AND (B) TO AVOID CAUSING DIFFICULTIES TO OTHER CONTRACTING PARTIES IN THEIR RELATIONS WITH EAST EUROPE.

6. DE KERGORLAY SAID THAT THIS APPROACH WOULD ALSO SERCE AS A RESTRAINT ON EAST EUROPEAN COUNTRIES REGARDING FURTHER AGREEMENTS. IF CZECH/FINNISH TRADE AT THE END OF THREE YEARS SHOULD REMAIN A A LOW LEVEL, THE FINNS OR ANY OTHER COUNTRY COULD QUESTION THE USEFULNESS OF AN AGREEMENT. IF THE FINNISH/ CZECH TRADE SHOULD RISE DRAMATICALLY, BOTH FINLAND AND CZECHOSLOVAKIA COULD ANTICIPATE A DELUGE OF COMPLAINTS ALONG THE LINES SET OUT BY AMBASSADOR GREENWALD TO YRJO-KOSKINEN (PARA 6, REF A). (COMMENT: ALSO, SOME WESTERN COUNTRIES, RATHER THAN MERELY COMPLAINING MIGHT ATTEMPT TO IMITATE, THUS WEAKENING THE GATT'S MFN CONCEPT.

7. DE KERGORLAY BELIEVED THAT HIS STRATEGY WOULD BE MORE LIKELY TO BE SUCCESSFUL IF THE GATT EXAMINATION BEGAN WITH THE FINNISH AGREEMENTS WITH BULGARIA OR CZECHOSLOVAKIA RATHER THAN WITH THE FINNISH AGREEMENT WITH HUNGARY.

8. DE KERGORLAY REPEATED HIS INTEREST IN LEARNING WHAT THE US POSITION WOULD BE IN THE GATT DISCUSSIONS.GREENWALD

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